



EI Principles on Transmission Investment

Effective Wholesale Competition Needs a Robust, Reliable and Cost-Effective Transmission Infrastructure

Greater competition in electricity markets is expanding the use of the nation's electric transmission grid. Built originally to serve existing and future loads, interconnect neighboring utilities, and support reliability, the grid also is now being used to support a larger number of wholesale transactions across regions. EEI's members continue to actively invest in the transmission system in order to meet these needs.

The Federal Energy Regulatory Commission has raised concerns about whether integrated electric utilities are building transmission facilities. Historical and projected data demonstrates that both integrated companies and stand-alone transmission companies are making increasing investments in transmission. Reversing a trend of declining transmission investment, from 1999 to 2003 annual transmission investment by investor-owned utilities increased 12 percent annually and totaled nearly \$18 billion over the period. From 2004-2008, preliminary data indicates that utilities have invested or are planning to invest \$28 billion, a 60 percent increase over the earlier period.

Investor-owned utilities will continue to build transmission facilities for which they can obtain cost-recovery. However, existing impediments continue to frustrate and delay transmission investment. Federal and state regulatory and legislative policies should be aimed at eliminating these impediments. This will bolster efforts to build more transmission in the future, which in turn, will enhance local, regional and inter-regional wholesale electricity markets. These policies are outlined below:

Eliminating Impediments, Providing Regulatory Certainty and Cost Recovery, and Facilitating Transmission Investment

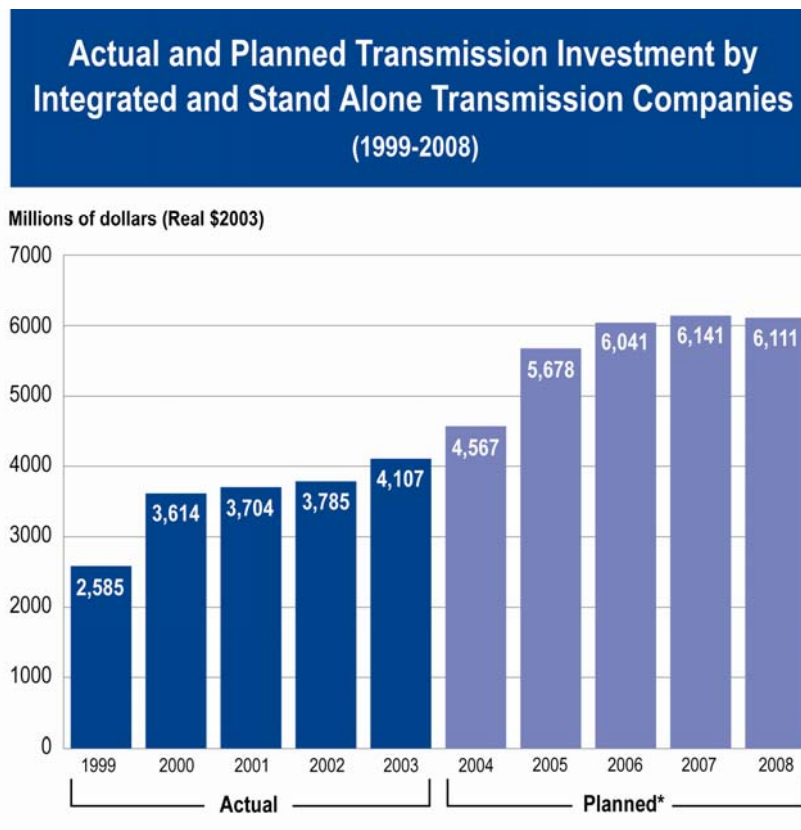
1. State and federal policy should eliminate regulatory impediments and provide regulatory certainty, particularly with respect to attractive returns, incentives, cost allocation and cost recovery, in order to raise the capital necessary to construct needed, cost-effective transmission facilities.
2. Transmission pricing should (a) allow for cost recovery of fixed and variable costs and a reasonable return on transmission investment, (b) ensure, to the extent practicable, that cost responsibility follows cost causation, (c) minimize the potential for cost shifting, (d) permit the recovery of all prudently incurred transition costs, and (e) promote efficient siting of new transmission and generation facilities.
3. Conflicting federal and state regulatory policies can result in unrecoverable, trapped costs. FERC and the states must ensure that the necessary regulatory mechanisms are in place to allow for the full recovery of all prudently incurred costs and the avoidance of trapped costs.

4. FERC and the states should allow full recovery of all prudently incurred costs to design, study, pre-certify, and permit transmission facilities. FERC should amend its rules to allow full recovery of the prudently-incurred costs of abandoned transmission projects.
5. FERC should allow utilities to include construction work in progress (CWIP) in rate base (in lieu of AFUDC) as this will encourage transmission construction through improved cash flow and greater rate stability.
6. FERC should allow for accelerated depreciation in ratemaking to improve financial flexibility, and promote additional transmission investment.
7. Where states require purchases of renewable resources that lack siting flexibility, FERC should allow alternative transmission pricing and cost recovery approaches to support the building of transmission facilities to help achieve state renewable resource goals.
8. FERC transmission policies should not favor one corporate structure, business model or retail regulatory model over another. Many different structures and business models can coexist in a competitive wholesale marketplace for the construction of transmission, provided there are fair rules in place for all market participants.
9. The Congress should take action to attract the capital necessary to build transmission capacity by repealing the Public Utility Holding Company Act (PUHCA), with appropriate federal and state access to books and records, and by providing the appropriate incentives in the tax code, including accelerated depreciation.

Improving Transmission Planning, Siting and Reliability

1. A regional planning process can identify cost-saving opportunities and facilitate the construction of new transmission to support robust wholesale markets and improved reliability.
2. Regional state committees (RSCs), where in existence, should facilitate the obtaining of necessary state regulatory approvals by parties seeking to build new transmission facilities that cross state boundaries or have multi-state impacts.
3. RSCs should assist in coordinating state siting activities through the use of standardized applications, joint data and studies, coordinated schedules and deadlines, and other mechanisms, where possible.
4. Regardless of whether there is an RSC in their region, states should streamline their transmission line siting processes and take regional considerations into account as appropriate.
5. FERC should have backstop siting authority if states cannot or will not act on applications to build transmission to relieve critical transmission bottlenecks and the Department of Energy (DOE) should act as lead agency to coordinate all authorizations and environmental reviews required under federal law to site transmission facilities on federal lands and to set deadlines for federal reviews.
6. All market participants should be subject to mandatory, enforceable reliability standards that are developed or approved by the North American Electric Reliability Council (NERC), with oversight and enforcement by the Federal Energy Regulatory Commission.

Investor-Owned Utilities Plan Substantial New Transmission Investment



The Handy-Whitman Index of Public Utility Construction Costs used to adjust for inflation from year to year. Data represents shareholder-owned electric utilities. *Planned total industry expenditures estimated from 95% response rate to EEI's Electric Transmission Capital Budget & Forecast Survey as of 5/05. Actual expenditures from EEI's Annual Property & Plant Capital Investment Survey and FERC Form 1s. To view the entire *EEI Survey of Transmission Investment* report, please visit EEI's Web site at www.eei.org.

- From 1999 to 2003, transmission investment by investor-owned utilities totaled nearly \$18 billion.
- From 2004-2008, survey data shows that industry is planning to invest \$28 billion. If realized, this would represent a 60% increase over actual investment in the earlier period.
- Combined actual and planned investment over the 1999-2008 period increases 10% annually.
- Net book value of investor-owned transmission assets totaled approximately \$45 billion in 2003.
- Planned investment over the 2004–2008 period is 62% of year 2003 net book value.
- Direct generator interconnection, on average, accounts for approximately 6.5% of annual transmission budgets for about one-third of respondents. About two-thirds of the respondents indicated zero dollars were budgeted for generator interconnection.



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